Memorandum

To	MPERA EIAC
From	RVK, Inc.
Subject	T. Rowe Price Target Date Solution Changes
Date	July 27, 2023

Summary

T. Rowe price recently informed clients and consultants of changes that will be made to their target date solutions. The first change is that at the beginning of the third quarter of 2023 and running through the remainder of the year, T. Rowe Price will gradually introduce two new building blocks, Hedged Equity and Dynamic Credit, into their target date portfolios: impacting all target date solutions.

RVK has evaluated these changes and views incremental growth as positive and believes these changes are reasonable. Additional information can be found below.

Adding two new building blocks, Hedged Equity and Dynamic Credit into the glide path - impacts all target date solutions

- T. Rowe Price's research has shown that incorporating hedging strategies can help improve risk adjusted returns through reduced drawdowns from significant market events. T. Rowe Price intends to help investors who are approaching, or who are in, retirement to better manage the risks of significant market events without unduly limiting their ability to capture upside potential over the long term by adding the Hedged Equity and Dynamic Credit into glide paths as building blocks.
- Hedged Equity uses a multi-strategy portfolio composition that provides exposure to core equities and employs multiple, complementary hedging strategies that seek to cushion volatility in significantly falling markets. Because Hedged Equity takes a broad approach to hedging, it seeks to account for a wider variety of significant market downturns compared to a single strategy approach. Since the Hedge Equity strategy's inception in June 2021, the strategy beat the S&P 500 in 100% of periods when the S&P was down—the S&P 500 was down 10 out of the 24 months observed, since strategy inception. The peak-to-trough drawdown for the strategy was -19.2% which beat the S&P's return of -23.9% (Jan '22 – Sept '22).
- Dynamic Credit employs a flexible, cross-sector approach to source opportunities from T. Rowe Price's global multisector research platform. It combines high conviction security selection with portfolio volatility management through hedging and shorting. Since the strategy's inception in January 2019, T. Rowe Price has observed that Dynamic Credit has shown an ability to cushion down-market volatility. Dynamic Credit has outperformed high yield, floating rate, and emerging debt strategies in many short-term periods of S&P 500 returns worse than -5% (since inception of the strategy through March 31, 2023)
- For Hedged Equity, the allocation will incrementally build to 10% of the equity allocation at retirement, and this allocation will be held through retirement.
- Currently, the return seeking FI allocation is comprised of three asset classes: HY, Floating Rate and EM. After this enhancement is implemented, Dynamic Credit will become the 4th component to the return seeking FI allocation – it is not replacing those three asset classes. The overall portfolio weight of the return seeking FI allocation is not changing, just that the additional component is being added to it. Dynamic Credit will be gradually added into the portfolios return

seeking FI allocation starting 10 years before the retirement date. Dynamic Credit will reach its full 20 % allocation within the return seeking FI allocation at the retirement date and this allocation will be held through retirement.

- The Hedged Equity strategy will be added as an underlying investment option to all share and unit classes of the 2005-2030 vintages of all target date funds and trusts starting in the earlier part of Q3, 2023. The addition of Dynamic Credit will follow in late third quarter/early fourth quarter of 2023.
- There will be no fee changes to any target date portfolios or funds as a result of these building block additions.